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C O N F I D E N T I A L THE HAGUE 002290

SIPDIS

EUR/UBI, EB/ESC FOR DAS BORG AND J.EIGHMIE

E.O. 12958: DECL: 09/10/2008

TAGS: [ENRG](#) [EPET](#) [ETTC](#) [IR](#) [JA](#) [NL](#) [UK](#)

SUBJECT: ILSA: IRAN-AZADEGAN DEMARCHE DELIVERED TO ROYAL DUTCH SHELL

REF: STATE 256533

Classified By: AMBASSADOR CLIFFORD M. SOBEL FOR REASONS 1.5 (B) AND (D)

11. (C) Summary. Senior Shell Advisor Gavin Graham confirmed that Shell has no plans to make a proposal or tender for the Azadegan oil field independent of the Japanese. Shell does not feel the time is right to make deals in Iran, and is wary of undermining its relationship with the Japanese companies. Shell hopes to be a player in Iran on an estimated horizon of five years from now, but only if conditions are right. End Summary.

12. (C) On September 10, EconCouns delivered ref demarche on Azadegan oil field investment to Dr. Gavin Graham, Senior Regional Adviser to Middle East, CIS, and South Asia at Royal Dutch Shell's Exploration and Production Division. EconCouns conveyed the Department's appreciation for the "heads up" from Shell's Washington representatives and passed a copy of Ambassador Brill's September 9 statement to the IAEA to illustrate USG concerns, also noting the parallel European proposals to the IAEA board. Graham confirmed that the Iranians had asked Shell and a number of other companies (Russian/Chinese/other) to bid on the Azadegan oil field. Shell will not take up the Iranians' invitation for an independent bid due to (a) USG sensitivities, and (b) a desire not to undercut the Japanese companies with whom Shell has been working on the project.

13. (C) Graham speculated that the Iranian move, which came as a surprise, was intended to turn up the competitive pressure on the Japanese consortium (confirming points in ref A). Graham commented that the Japanese were concerned about the development, but should not be because they had perhaps a 2-year head start on any potential newcomer into the project. Graham said the move shows the Iranian government's tendency to try to bargain with foreign entities -- not just on energy, but on a variety of matters. At the same time, Iran's oil industry decisionmakers are by and large highly competent technocrats eager to "get things right," that is, to conduct business at a level and in a manner fitting of the developed world.

14. (C) Graham explained that Shell has a long-range perspective: it wants to remain engaged ("keep the balloon in the air") and hoped that in 5 years Iran would be a much more promising environment, but that for now Shell was looking at prospects warily. Iran is attractive to Shell for its massive reserves, educated workforce, and need for foreign investment. However, in order for Shell to participate in an Azadegan deal, Graham reiterated that three conditions must be in place: the deal must be commercially viable, and Iran must have better internal and external political environments.

SOBEL